This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 06 OF 08 ROME 000379

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DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA LABOR FOR ILAB PARIS ALSO FOR USOECD

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ROME 00379 06 OF 08 010327Z PAGE 02 TREAS FOR OASIA HARLOW, CARNES STATE PASS CEA STATE PASS FRB FOR GUST FRANKFURT FOR WALLAR FRANKFURT FOR WALLAR
USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ AND
4212/ITA/MAC/OEURA/CPD/DDEFALCO

ANN. 4TH/ ANN. 4TH/ ANN. 4TH/ 4TH/ 2.0 DOMESTIC DEMAND 0.7 0.7 0.9 1.7 2.0 2.4 INFLATION 2.5 PRODUCER PRICES -0.2 1.7 2.8 2.2 2.0 1.4 0.9 1.3 1.1 UNEMPLOYMENT 9.0 8.9 8.9 8.9 8.9 8.8 PUBLIC ADMINISTRATION (AS PCT OF GDP) EXPENDITURES 46.8 47.1 REVENUES 44.4 DEFICIT -2.4 44.6 -2.5 44.2 PUBLIC UNCLASSIFIED ROME 00379 06 OF 08 010327Z PAGE 03 DEBT 108.3 107.8 TRADE ACCOUNT USD BILL. PCT OF GDP 13.4 1.1 12.6 12.2 CURRENT ACCOUNT
USD BILL. 3.5
PCT OF GDP -0.3 -3.1 -0.2 -0.2 AVG EXCHANGE RATE USD/EURO 0.97 1.00 1.00 0.0 EURO/USD 1.03 1.00 1.00

1. NATIONAL ACCOUNTS, INDUSTRIAL PRODUCTION, PRICES AND UNEMPLOYMENT

I.A. GROSS DOMESTIC PRODUCT (PERCENT CHANGE OVER SAME PERIOD YEAR EARLIER, 1995 PRICES) NEW SERIES

T.A.1. ANNUAL

	2001	2002	2003F	2004F
CONSUMPTION PRIVATE PUBLIC	1.4 1.1 2.3 UNCLASS	0.5 0.2 1.4 IFIED	1.2 1.2 1.0	1.7 1.9 1.0
PAGE 04 ROME FIXED INVESTMENT CONSTRUCTION MACHINES/EQUIPMENT EXPORTS GDP	00379 06 2.4 3.7 1.5 0.8 0.2 1.8	OF 08 -1.1 0.6 -2.2 -0.1 0.8 0.4	010327Z 2.0 1.7 2.2 3.0 2.2 1.1	3.4 1.7 4.6 4.8 5.1 2.0
ADDENDUM: GROSS ASSET FORMATION TOTAL DOMESTIC DEMANI FINAL DOMESTIC DEMANI	1.6	1.4 0.7 0.2	-0.1 0.9 1.3	3.4 2.0 2.0

I.B.2. FOURTH QUARTER OVER FOURTH QUARTER

	IV01/	IV02/	IV03/	IV04/
	IV00	IV01	IV02F	IV03F
CONSUMPTION PRIVATE PUBLIC	0.6	0.4	1.4	2.1
	0.2	0.3	1.5	2.5
	1.9	0.9	0.9	0.9
FIXED INVESTMENT CONSTRUCTION MACHINES/EOUIPMENT	1.9	0.0	2.0	3.5
	3.6	1.0	2.0	2.0
	0.7	-0.7	-0.7	4.6

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PAGE 01 ACTION EB-00 ROME 00379 07 OF 08 010329Z

AID-00 CEA-01 CIAE-00 CTME-00 DODE-00 EAP-00 EXME-00 EUR-00 E-00 UTED-00 TEDE-00 INR-00 ITC-01 LAB-01 VCE-00 NSCE-00 OMB-01 OPIC-01 OPM-01 ACE-00 SS-00 STR-00 TEST-00 USIE-00 DRL-01 INFO LOG-00 CTME-00 DODE-00 WHA-00 SRPP-00 FRB-00 NSAE-00 UTED-00 VCE-00 ACE-00 VC-00 AC-01 SP-00 SSO-00 G = 0.0/008W SAS-00

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P 311223Z JAN 03 FM AMEMBASSY ROME FM AMERICASSI KOME
TO DEPT OF TREASURY WASHDC PRIORITY
SECSTATE WASHDC 7921
INFO USDOC WASHDC
DEPT OF LABOR WASHDC EU MEMBER STATES COLLECTIVE AMEMBASSY OTTAWA

USEU BRUSSELS 3085 AMEMBASSY TOKYO AMCONSUL MILAN AMCONSUL FLORENCE AMCONSUL NAPLES
AMCONSUL FRANKFURT UNCLAS SECTION 07 OF 08 ROME 000379 DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA LABOR FOR ILAB PARIS ALSO FOR USOECD UNCLASSIFIED PAGE 02 ROME 00379 07 OF 08 010329Z TREAS FOR OASIA HARLOW, CARNES STATE PASS CEA STATE PASS FRB FOR GUST FRANKFURT FOR WALLAR USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ AND 4212/ITA/MAC/OEURA/CPD/DDEFALCO E.O. 12958: N/A SUBJECT: ECONOMIC FORECAST FOR ITALY 2003-2004:

JANUARY 2003 PREDICTIONS 6.0 EXPORTS 2.9 4.0 GDP 0.6 1.1 1.7 2.5 ADDENDUM: GROSS ASSET FORMATION TOTAL DOMESTIC DEMAND FINAL DOMESTIC DEMAND 0.1 0.5 I.C. INDUSTRIAL PRODUCTION AND PRICE INDICES PERCENT CHANGE OVER SAME PERIOD YEAR EARLIER 2001 IV01 2002 IV02 2003 IV03 2004 IV04 (F) (F) (F) (F) -0.7 2.9 1.9 0.3 2.4 0.4 3.3 3.1 PRODUCTION UNCLASSIFIED ROME 00379 07 OF 08 010329Z INFLATION (IPCA) 2.8 2.4 2.5 2.8 2.2 2.0 1.8 1.7 PRICES(PPI) 1.9 -1.0 -0.2 1.3 1.4 1.1 0.9 0.7 DEFLATOR 2.6 4.8 2.2 1.8 2.2 2.2 1.8 1.9 I.D. UNEMPLOYMENT RATE 1999-2003 2000 2001 2002(F) 2003(F) 2004(F) 9.0 YEAR 10.6 9.5 9.3 8.9 4TH OTR II. BALANCE OF PAYMENTS II.A. FOREIGN TRADE PRICES AND QUANTITIES (PERCENTAGE CHANGE FROM PREVIOUS YEAR, LIRE PRICES) 2001 2002 2003 (F) 3.0 1.4 2.2 2.8 (F) 4.8 0.9 5.1 0.5 3.3 0.6 0.5 -0.1 -0.2 0.8 0.4 EXPORT VOLUME UNIT VALUE
IMPORT VOLUME
UNIT VALUE 1.0 TERMS OF TRADE -2.9 -0.2 UNCLASSIFIED ROME 00379 07 OF 08 010329Z PAGE 04 II.B. CURRENT ACCOUNT (BILLIONS OF EURO) 2001 2002 (F) (F) (F) 13.912.6 12.1 270.1 282.0 298.1 256.2 269.4 286.0 17.8 TRADE BALANCE EXPORTS FOB IMPORTS FOB BALANCE AS PCT. 270.9 253.1 1.5% 1.1% 1.0% 0.9% OF GDP -18.0 0.3 -17.5 -2.4 -11.7 -3.4 -15.7 -14.8 -0.8 -1.4 -11.7 -10.4 -3.1 -3.0 INVISIBLES SERVICES INCOMES -11.5 -6.7 NET TRANSFERS CURRENT ACCOUNT PCT OF GDP -0.2 0.0% -3.6 -0.3% -3.1 -0.2% -2.7 -0.2% AVERAGE EXCHANGE RATES (EURO/USD) (USD/EURO) 1.12 0.90 1.03 0.97 1.00 1.00 UNCLASSIFIED UNCLASSIFIED PTQ2844 ROME 00379 08 OF 08 010329Z PAGE 01 ACTION EB-00 CEA-01 CIAE-00 EXME-00 EUR-00 INR-00 ITC-01 INFO LOG-00 LOG-00 AID-00 SRPP-00 EAP-00 CTME-00 DODE-00 WHA-00 E-00 UTED-00 VC-00 AC-01 LAB-01

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VCE-00

FRB-00

NSAE-00 SSO-00 SAS-00

EU MEMBER STATES COLLECTIVE
AMEMBASSY OTTAWA
USEU BRUSSELS 3086
AMEMBASSY TOKYO
AMCONSUL MILAN
AMCONSUL MILAN
AMCONSUL TAORENCE
AMCONSUL NAPLES
AMCONSUL FRANKFURT

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DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA LABOR FOR ILAB PARIS ALSO FOR USOECD

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PAGE 02 ROME 00379 08 OF 08 0103292
TREAS FOR OASIA HARLOW, CARNES
STATE PASS CEA
STATE PASS FRB FOR GUST
FRANKFURT FOR WALLAR
USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ AND
4212/ITA/MAC/OEURA/CPD/DDEFALCO

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TAGS: <u>ECON EFIN ELAB IT ECON EFIN ELAB ET ECON ET ELAB ET ELAB ET ELAB ET ECON ET ELAB ET ELAB ET ECON ET ELAB </u> JANUARY 2003 PREDICTIONS

II.C. CURRENT ACCOUNT (USD BILLION)

	2000	2001	2002 (F)	2003 (F)
TRADE BALANCE	15.9	13.4	12.6	12.1
EXPORTS FOB	242.6	261.2	282.0	298.1
IMPORTS FOB BALANCE AS PCT.	226.7	247.8	269.4	286.0
OF GDP	1.5%	1.1%	1.0%	0.9%
INVISIBLES	-16.1	-16.9	-15.7	-14.8
SERVICES INCOMES	0.3 -10.4	-2.3 -11.4	-0.9 -11.7	-1.3 -10.4
NET TRANSFERS	-6.0	-3.2	-3.1	-3.0
CURRENT ACCOUNT	-0.2 UNCLASS	-3.5 IFIED	-3.1	-2.7

ROME 00379 08 OF 08 010329Z 0.0% -0.3% -0.2% PAGE 03 PCT OF GDP -0.2%

III. PUBLIC FINANCES

MEASURES OF FISCAL BALANCES, 2000-2003

III. A. 1. PUBLIC ADMINISTRATION - NATIONAL ACCOUNTS BASIS (BILLIONS OF EURO)

	REVENUES	EXPENSES	BALANCE BALANCE	PRIMARY
2000	520,828	541,102	-20,169	55,096
PCT OF GDP	44.7	46.5	-1.7	4.7
2001	556,797	583,595	-26,798	45,686
PCT OF GDP	45.8	48.0	-2.2	3.8
.8				
2002 (F)	554,824	585,309	-30,484	45,084
PCT OF GDP	44.4	46.8	-2.4	3.6
2003 (F)	576,029	608,297	-32,268	39,522
PCT OF GDP	44.6	47.1	-2.5	3.1
2004 (F)	591,600	625,098	-33,498	34,703
PCT OF GDP	44.2	46.7	-2.5	2.6

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PAGE 04 ROME 00379 08 OF 08 010329Z IV. HISTORICAL SERIES-REAL AND NOMINAL GDP 2000-2003 (MILLIONS OF EURO)

PERIOD	GDP (1995 PRICES)	GDP (CURRENT PRICES)
2000 Y/Y CHG 2001 Y/Y CHG 2002 Y/Y CHG 2003 Y/Y CHG 2004 Y/Y CHG	1,012,804 2.9% 1,030,785 1.8% 1,035,300 0.4% 1,047,055 1.1% 1,068,149 2.0%	1,164,766 5.1% 1,216,581 4.4% 1,249,362 2.7% 1,290,716 3.3% 1,339,923 3.8%

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EU MEMBER STATES COLLECTIVE AMEMBASSY OTTAWA USEU BRUSSELS 3083 AMEMBASSY TOKYO
AMCONSUL MILAN
AMCONSUL FLORENCE
AMCONSUL NAPLES AMCONSUL FRANKFURT UNCLAS SECTION 05 OF 08 ROME 000379 SIPDIS DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA LABOR FOR ILAB PARIS ALSO FOR USOECD UNCLASSIFIED PAGE 02 ROME 00379 05 OF 08 010323Z TREAS FOR OASIA HARLOW, CARNES STATE PASS CEA STATE PASS FRB FOR GUST FRANKFURT FOR WALLAR USDOC 6800/TTA/TD/OTEA/TISD/HSCHULTZ AND 4212/ITA/MAC/OEURA/CPD/DDEFALCO E.O. 12958: N/A
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I.B.INDUSTRIAL PRODUCTION AND PRICE INDICES, 2000-2003

I.C.UNEMPLOYMENT RATE, 2000-2003 II. BALANCE OF PAYMENTS II.A.FOREIGN TRADE PRICES AND PAGE 04 ROME 00379 05 OF 08 010323Z II.B.CURRENT ACCOUNT, 2000-2003 (USD BILLIONS) III.PUBLIC FINANCES III.A.MEASURES OF FISCAL BALANCES, 2000-2003 III. A. 1. PUBLIC ADMINISTRATION - NATIONAL ACCOUNTS BASIS (TRILLIONS OF LIRE) HISTORICAL SERIES-REAL AND NOMINAL GDP 2000-2003 138. TABLES SUMMARY TABLE 2002 2003 2004 2002 2003 2004 SVC FOR TWO PARA 28'S UNCLASSIFIED

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WHA-00 VC-00 AC-01

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USEU BRUSSELS 3082
AMEMBASSY TOKYO
AMCONSUL MILAN
AMCONSUL FLORENCE
AMCONSUL NAPLES
AMCONSUL FRANKFURT

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DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA LABOR FOR ILAB PARIS ALSO FOR USOECD

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PAGE 02 ROME 00379 04 OF 08 010319Z TREAS FOR OASIA HARLOW, CARNES STATE PASS CEA STATE PASS FRB FOR GUST FRANKFURT FOR WALLAR USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ AND 4212/ITA/MAC/OEURA/CPD/DDEFALCO

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- 120. NORTH-SOUTH REGIONAL DIFFERENCES CONTINUE.
 SOUTHERN ITALY HAS AN AVERAGE EIGHTEEN PERCENT (18.9
 PERCENT IN OCTOBER 2001) UNEMPLOYMENT RATE, WHILE
 HIGHLY PRODUCTIVE NORTHERN ITALY HAS A TIGHT JOB
 MARKET WITH ONLY FOUR PERCENT UNEMPLOYMENT. CENTRAL
 ITALY HAS A 6.3 PERCENT RATE (DOWN FROM SEVEN PERCENT
 IN OCTOBER 2001). EMPLOYMENT ROSE BY 234,000 PEOPLE
 FROM 21,698,000 IN OCTOBER 2001 TO 21,932,000 IN
 OCTOBER 2002. THIS REFLECTS AN INCREASE OF 71,000
 JOBS IN THE NORTH (UP 0.6 PERCENT FROM OCTOBER 2001),
 AN INCREASE OF 63,000 JOBS IN CENTRAL ITALY (UP 1.4
 PERCENT FROM OCTOBER 2001) AND A 99,000 NEW JOBS IN
 THE SOUTH (UP 1.6 PERCENT). LESS THAN ONE-FIFTH OF
 TOTAL EMPLOYMENT INVOLVES TEMPORARY OR PART-TIME JOBS,
 PRIMARILY IN THE SERVICES SECTOR.
- 121. THE INCREASE IN EMPLOYMENT LIKELY REFLECTS THE IMPLEMENTATION OF SOMEWHAT LESS RESTRICTIVE LABOR LAWS AND OF GOI FISCAL INCENTIVES FOR WORKERS TO MOVE FROM UNCLASSIFIED

PAGE 03 ROME 00379 04 OF 08 010319Z THE UNDERGROUND ECONOMY TO THE FORMALIZED ECONOMY.

PUBLIC FINANCE

- 122. IN JANUARY 2003, THE GOI ANNOUNCED THAT THE PUBLIC SECTOR DEFICIT DECREASED BY 25 PERCENT FROM END-2001 TO END-2002. THE IMPROVEMENT RESULTED FROM A POSTFONEMENT OF PAYMENTS (SPENDING CAPS WERE IMPOSED ON GOVERNMENT EXPENDITURES) AND FROM ANTICIPATED REVENUES OF E9.1 BILLION IN REAL ESTATE SALES. WE PREDICT THE 2002 DEFICIT/GDP WAS 2.4 PERCENT, ALTHOUGH THE GOI ESTIMATES THAT THE 2002 DEFICIT/GDP RATIO WAS 2.2 PERCENT (SLIGHTLY ABOVE THE GOI TARGET OF 2.1 PERCENT). AN E40 BILLION SWAP IN TREASURY BONDS ALSO IS THOUGHT TO HAVE REDUCED THE DEBT/GDP RATIO TO AROUND 108-109 PERCENT. THE GOIS SALE OF ITS REMAINING 3.5 PERCENT STAKE IN TELECOM ITALIA, WHICH BROUGHT IN E1.4 BILLION IN REVENUES, ALSO IMPROVED THE DEBT/GDP RATIO.
- 123. EU ECONOMIC AND MONETARY AFFAIRS COMMISSIONER 123. EU ECONOMIC AND MONETARY AFFAIRS COMMISSIONER PEDROS OSLBES HAS CRITICIZED ITALY FOR ITS FREQUENT USE OF ONE-TIME MEASURES, SUCH AS TAX AMNESTIES. (ONE-TIME MEASURES HAVE RISEN FROM 0.7 PERCENT TO 1.2 PERCENT OF GDP.) THE COMMISSION ALSO HAS EXPRESSED CONCERN ABOUT THE SUSTAINABILITY OF ITALYS FISCAL ADJUSTMENT. ITS E20 BILLION 2003 DEFICIT REDUCTION PACKAGE RELIES MOSTLY ON THESE ONE-TIME MEASURES AND SECURITIZATION OF STATE-OWNED ASSETS, RATHER THAN ON MORE SUSTAINABLE STRUCTURAL CHANGE. SOLBES BELIEVES ITALYS PUBLIC LINCLASSIFIED UNCLASSIFIED
- PAGE 04 ROME 00379 04 OF 08 010319Z
 DEFICIT WILL APPROACH THREE PERCENT IN 2004. FOR THIS
 REASON, THE COMMISSION IS URGING ITALY TO CONSIDER A
 SUPPLEMENTAL BUDGET PACKAGE, WITH STRONG DEFICIT
 CUTTING MEASURES, BEFORE MARCH. (NOTE: MID-MARCH IS
 THE DEADLINE FOR ITALYS TAX AMNESTY, WHICH, ACCORDING
 TO GOI CALCULATIONS, IS EXPECTED TO PRODUCE E8 BILLION
 IN ADDITIONAL REVENUES. END-NOTE).
- 124. IN A RECENT REPORT ON ITALYS ECONOMY, MORGAN STANLEY ESTIMATED THAT 60 PERCENT OF THE DEFICIT REDUCTION PACKAGE IS BASED ON TAX AMMESTIES AND THE SALE OF REAL ESTATE (PRESENTED AS SECURITIZED ASSETS). THE DEBT/GDP RATIO IS CLOSER TO 110 PERCENT, ACCORDING TO MORGAN STANLEY. IN ITS REPORT, THE FIRM ALSO UNDERSCORED THE UNCERTAINTY OF GDP GROWTH, THE EXPECTED INCREASE IN INFLATION, AND WHAT IT TERMED GOI SHORT-SIGHTEDNESS FOR NOT TACKLING STRUCTURAL REFORM.
- 125. THE CONSENSUS OF ITALYS LEADING FORECAST/ECONOMIC INSTITUTIONS IS FOR A MODERATE ECONOMIC RECOVERY, MID-

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TO DEPT OF TREASURY WASHDC PRIORITY
SECSTATE WASHDC 7915
INFO USDOC WASHDC
DEPT OF LABOR WASHDC
EU MEMBER STATES COLLECTIVE
AMEMBASSY OTTAWA
USEU BRUSSELS 3079
AMEMBASSY TOKYO
AMCONSUL MILAN
AMCONSUL FLORENCE
AMCONSUL FLORENCE
AMCONSUL FANKFURT
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TREAS FOR OASIA HARLOW, CARNES
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USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ AND

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- 11. SUMMARY: ITALY IS LIKELY TO GROW ONLY MODERATELY OVER THE FORECAST PERIOD. IN 2002, THE GDP GREW BY A MEAGER 0.4 PERCENT (BELOW THE EU AVERAGE), BUT SHOULD INCREASE BY 1.1 PERCENT IN 2003 AND BY TWO PERCENT IN 2004, SUPPORTED BY A MODEST RECOVERY IN DOMESTIC DEMAND.
- 12. THE GLOBAL ECONOMIC DOWNTURN CONTINUES TO DAMPEN ITALIAN EXPORTS, WHICH ALSO ARE HURT BY THE EUROS STRENGTH VERSUS THE DOLLAR. IN 2002, THE CONVERSION TO THE EURO AND INCREASED UTILITIES PRICES PUSHED UP RETAIL PRICE LEVELS BY 2.5 PERCENT. HOWEVER, INFLATION IS EXPECTED TO DECLINE TO 2.2 PERCENT IN 2003 AND TO 1.8 PERCENT IN 2004. THROUGH 2002 SALES OF REAL ESTATE AND OTHER ONE-TIME REVENUE MEASURES, THE GOI WAS ABLE TO BRING THE DEFICIT/GDP RATIO TO 2.4 UNCLASSIFIED 12. THE GLOBAL ECONOMIC DOWNTURN CONTINUES TO DAMPEN UNCLASSIFIED
- PAGE 03 ROME 00379 01 OF 08 010315Z
 PERCENT, SLIGHTLY ABOUT ITS 2002 TARGET OF 2.2
 PERCENT. HOWEVER, OVER THE FORECAST PERIOD, ITALY
 WILL HAVE DIFFICULTY IN KEEPING ITS DEFICIT WITHIN EU
 TARGETS. END SUMMARY.

GDP GROWTH: 2002

- 13. AFTER SLOW GROWTH IN THE FIRST HALF OF 2002, ITALYS ECONOMY GREW BY 0.3 PERCENT FROM THE SECOND TO THE THIRD QUARTER. THE THIRD QUARTER OF 2002 WAS 0.5 PERCENT HIGHER THAN THE THIRD QUARTER OF 2001. DATA FROM THE CENTRAL GOVERNMENTS RESEARCH DIVISION,
- N, ISTAT, SHOW THAT SLIGHTLY HIGHER EXPORTS AND ISTAT, SHOW THAT SLIGHTLY HIGHER EXPORTS AND PRIVATE/PUBLIC CONSUMPTION, UP 0.2 PERCENT AND 1.6 PERCENT RESPECTIVELY, SUPPORTED GDP GROWTH FROM THE SECOND TO THIRD QUARTER. HOWEVER, FOR THE FIRST NINE MONTHS OF 2002, INVESTMENT (MOSTLY IN MACHINERY AND EQUIPMENT) FELL OVERALL BY 1.4 PERCENT; EXPORTS ALSO DECLINED 1.1 PERCENT. CONCERNS ABOUT GLOBAL ECONOMIC CONDITIONS AND INCREASED INFLATION (PARTIALLY BOOSTED BY THE EUROS INTRODUCTION) HAVE SLOWED CONSUMER DEMAND. ITALYS EXPORTS HAVE ALSO BEEN DEPRESSED BY THE ECONOMIC DIFFICULTIES OF ITS MAJOR EXPORT MARKETS, GERMANY AND THE UNITED STATES.
- 14. INDUSTRIAL PRODUCTION FIGURES WERE DISAPPOINTING. IN THE FIRST TEN MONTHS OF 2002, INDUSTRIAL PRODUCTION FELL BY 2.6 PERCENT FROM THE CORRESPONDING PERIOD IN 12001. CONFINDUSTRIA, ITALYS INDUSTRIALISTS UNCLASSIFIED
- ROME 00379 01 OF 08 PAGE 04 KOME 003/9 01 OF 08 0103102 A ASSOCIATION, ESTIMATES A 0.7 PERCENT DECLINE IN INDUSTRIAL PRODUCTION IN THE FOURTH QUARTER 2002. THIS IS IN LINE WITH THE CENTRAL BANK FORECAST. BASED ON THESE TRENDS, WE EXPECT FIGURES TO SHOW A 1.9
- PERCENT DECLINE IN INDUSTRIAL PRODUCTION IN 2002, FOLLOWED BY A MODERATE RECOVERY DURING THE FORECAST PERIOD.
- 15. ISAES LATEST BUSINESS SURVEY SHOWED A FURTHER DROP IN BUSINESS CONFIDENCE IN DECEMBER 2002. ISAES CONSUMER CONFIDENCE INDEX FELL ANOTHER THREE POINTS IN DECEMBER 2002, REACHING THE LOWEST LEVEL REGISTERED SINCE 1998. ONE BRIGHT SPOT: CAR SALES WERE UP FOR THE MONTH. AS A RESULT OF THE GOVERNMENTS TAX INCENTIVES FOR NEW CAR PURCHASES, CAR SALES INCREASED BY A HEALTHY 51 PERCENT IN DECEMBER 2002. OVERALL, HOWEVER, CAR SALES WERE STILL DOWN 5.9 PERCENT OVER 2001 LEVELS.
- 16. PRIVATE CONSUMPTION IS EXPECTED TO SHOW A DECLINE FROM 1.1 PERCENT IN 2001 TO 0.2 PERCENT IN 2002. WEA CONSUMER CONSUMPTION IS THE RESULT OF LOWER PORTFOLIO

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TO DEPT OF TREASURY WASHDC PRIORITY
SECSTATE WASHDC 7916
INFO USDOC WASHDC DEPT OF LABOR WASHDO EU MEMBER STATES COLLECTIVE AMEMBASSY OTTAWA USEU BRUSSELS 3080 AMEMBASSY TOKYO AMCONSUL MILAN
AMCONSUL FLORENCE
AMCONSUL NAPLES
AMCONSUL FRANKFURT

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SIPDIS

DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA LABOR FOR ILAB PARIS ALSO FOR USOECD

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PAGE 02 ROME 00379 02 OF 08 010316Z TREAS FOR OASIA HARLOW, CARNES STATE PASS CEA STATE PASS FRB FOR GUST FRANKFURT FOR WALLAR
USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ AND
4212/ITA/MAC/OEURA/CPD/DDEFALCO

E.O. 12958: N/A
TAGS: ECON EFIN ELAB IT ECON EFI

INCOME PARTICULARLY AFFECTED BY THE CRISES IN LATIN AMERICA AND HIGHER INFLATION. FINANCE MINISTER TREMONTI ESTIMATES THAT ITALIANS LOST THE EQUIVALENT OF 1.1 PERCENT IN HOUSEHOLD INCOME BECAUSE OF FAILED ARGENTINE INVESTMENTS. ACCORDING TO THE CENTRAL BANK, ITALIAN HOUSEHOLDS LOST ONE-THIRD OF THE VALUE OF THEIR STOCK PORTFOLIO FROM THE SECOND QUARTER 2001 TO THE CORRESPONDING PERIOD IN 2002, EQUAL TO E 216 BILLION. IN THE FIRST HALF OF 2002, HOUSEHOLDS SOLD OFF STOCKS VALUED AT BY E 6 BILLION, WHILE INCREASING THEIR INVESTMENT IN TREASURY BILLS AND BONDS BY E 70.3 BILLION. BILLION.

17. PRIVATE INVESTMENT DECLINED IN 2002. PRIVATE INVESTMENT FOR THE FIRST NINE MONTHS OF 2002 WAS DOWN 1.1 PERCENT OVER THE CORRESPONDING PERIOD IN 2001. INVESTMENT IN MACHINERY AND EQUIPMENT FELL FURTHER, DOWN 2.7 PERCENT - A RESULT OF A 4.1 PERCENT DECREASE IN INVESTMENT IN MACHINERY, COMBINED WITH A 2.4 UNCLASSIFIED

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EXPECT THAT FIGURES WILL SHOW ONLY A MODEST RECOVERY
IN THE LAST PART OF 2002. THESE WERE LIKELY THE
RESULT OF LAST MINUTE INVESTMENTS TO TAKE ADVANTAGE OF TAX INCENTIVES, GRANTED UNDER THE TREMONTI LAW FOR REINVESTED PROFITS, AND ENVIRONMENT INCENTIVES FOR INVESTMENT IN CLEANER TRANSPORTATION EQUIPMENT.

18. INVESTMENT IN CONSTRUCTION ALSO WAS DISAPPOINTING, UP JUST 0.5 PERCENT IN THE FIRST NINE MONTHS OF 2002. WE ASSUME A 0.6 PERCENT INCREASE FOR 2002, WELL BELOW THE TWO PERCENT GROWTH ESTIMATED BY THE ASSOCIATION OF THE BUILDING COMPANIES, ANCE, WHICH HAD ANTICIPATED SIGNIFICANT INVESTMENT IN PUBLIC WORKS BY THE END OF 12002.

GDP GROWTH: 2003-2004

19. GDP GROWTH IS EXPECTED TO INCREASE GRADUALLY TO 1.1 PERCENT AND TWO PERCENT RESPECTIVELY IN 2003 AND 2004, SUPPORTED BY DOMESTIC DEMAND AND A RECOVERY OF EXPORTS, ALTHOUGH THE STRONGER EURO VERSUS THE DOLLAR WILL HURT EXPORTS. LOWER INFLATIONARY PRESSURES AND A MODEST RECOVERY OF THE STOCK MARKET ARE LIKELY TO GRADUALLY BOOST HOUSEHOLD INCOME AND PRIVATE CONSUMPTION. AS A RESULT OF THESE TRENDS, PRIVATE CONSUMPTION IS EXPECTED TO INCREASE FROM 0.2 PERCENT IN 2002 TO 1.2 PERCENT AND 1.9 PERCENT IN 2003 AND 2004, RESPECTIVELY.

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PAGE 04 ROME 00379 02 OF 08 010316Z 110. INVESTMENT SHOULD INCREASE GRADUALLY TO TWO PERCENT IN 2003 AND TO 3.4 PERCENT IN 2004, IF BUSINESS AND ECONOMIC CONDITIONS IMPROVE AS EXPECTED. THE EXPIRATION OF A TAX DEDUCTION FOR HOME REMODELING AT SEPTEMBER 2003 IS, HOWEVER, LIKELY TO DEPRESS CONSTRUCTION INVESTMENT. THIS SHOULD BE OFFSET BY HIGHER PUBLIC INVESTMENT IN INFRASTRUCTURE.

INFLATION TRENDS

111. RETAIL INFLATION WAS 2.5 PERCENT IN 2002, A RESULT OF THE EURO CHANGEOVER, WHICH RESULTED IN THE ROUNDING UP OF PRICES, AND HIGHER PRICED UTILITIES, ESPECIALLY ENERGY.

112. ITALIAN CONSUMERS AND SOME INDEPENDENT RESEARCH

INSTITUTES BELIEVE THAT OFFICIAL FIGURES UNDERSTATE 2002 INFLATION. PRICES OF SUCH BASIC ITEMS AS NEWSPAPERS, COFFEE, BUS, SUBWAY AND TICKETS ROSE

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TREAS FOR OASIA HARLOW, CARNES
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TAGS: <u>ECON EFIN ELAB IT ECON EF</u>

SUBSTANTIALLY IN 2002. ACCORDING TO SOME CONSUMER ASSOCIATIONS, RESTAURANT PRICES ROSE BY 20 PERCENT OVER THE YEAR SINCE THE EURO WAS INTRODUCED, AND MEAT PRICES JUMPED 10 TO 20 PERCENT. PARTLY IN RESPONSE THIS CONCERN, THE MARKET BASKET USED FOR INFLATION CALCULATIONS WAS REVISED AT THE BEGINNING OF 2003.

113. IN LINE WITH THE CONSENSUS FORECAST, WE ESTIMATE A MODEST REDUCTION IN INFLATION OVER THE FORECAST PERIOD TO 2.2 PERCENT IN 2003 AND TO 1.8 PERCENT IN 2004. THE PRICE OF UTILITIES IS LIKELY TO INCREASE SIGNIFICANTLY IN EARLY 2003, GIVEN THE UNCERTAIN SITUATION IN THE MIDDLE EAST.

FOREIGN TRADE

114. ITALYS SHARE OF WORLD TRADE DECREASED FROM 3.9 PERCENT IN 2001 TO 3.7 PERCENT IN 2002. ITALYS UNCLASSIFIED

PAGE 03 ROME 00379 03 OF 08 010317Z EXPORTS HAVE BEEN SLOWED BY THE RECESSION IN GERMANY, ITS TOP EXPORT MARKET. EXPORTS ARE EXPECTED TO RECOVER ONLY WHEN GLOBAL ECONOMIC CONDITIONS IMPROVE, LIKELY IN THE FIRST HALF OF 2003 OR LATER. HOWEVER, IF THE STRENGTH OF THE EURO CONTINUES, EXPORT GROWTH WILL LIKELY BE RESTRAINED.

115. THE LATEST FOREIGN TRADE DATA THROUGH OCTOBER 2002 SHOW THAT EXPORTS DROPPED 3.3 PERCENT, WHILE IMPORTS FELL BY 5.7 PERCENT. EXPORTS TO EU COUNTRIES DECREASED BY 5.8 PERCENT, WHILE IMPORTS FROM THE EU DECREASED BY 4.1 PERCENT. EXPORTS TO GERMANY FELL THE MOST, DOWN 11.7 PERCENT THROUGH OCTOBER 2002 OVER THE CORRESPONDING PERIOD IN 2001.

116. EXPORTS TO NON-EU COUNTRIES DID NOT DECLINE AS MUCH. ACCORDING TO THE LATEST ISTAT DATA, ITALIAN EXPORTS TO ALL NON-EU AREAS (INCLUDING THE U.S., TURKEY AND THE FOUR SOUTH AMERICAN COUNTRIES OF MERCOSUR) DECREASED 0.2 PERCENT IN THE FIRST TEN MONTHS OF 2002 OVER THE CORRESPONDING PERIOD IN 2001. THESE REFLECT A DECLINE IN EXPORTS TO MERCOSUR (36.3 PERCENT THROUGH OCTOBER), ASIA (6.9 PERCENT), NON-EU EUROPEAN COUNTRIES (3.5 PERCENT), JAPAN (3.1 PERCENT) AND THE UNITED STATES (1.8 PERCENT). AT THE SAME TIME, EXPORTS INCREASED TO CHINA (28.2 PERCENT THROUGH OCTOBER), RUSSIA (12.8 PERCENT), OPEC COUNTRIES (5.1 PERCENT) AND EU CANDIDATE COUNTRIES (3.5 PERCENT).

17. THE LATEST BALANCE OF PAYMENTS DATA SHOW A CURRENT ACCOUNT DEFICIT OF E3.5 BILLION EURO THROUGH UNCLASSIFIED

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OCTOBER 2002, COMPARED TO A MODEST DEFICIT (E22
MILLION) IN THE CORRESPONDING PERIOD IN 2001. THIS IS
THE RESULT OF A FIVE BILLION EURO DECLINE IN
INVESTMENT, INCOMES AND TRANSFER BALANCES IN THE
CURRENT ACCOUNT, COMBINED WITH AN E1.5 BILLION
IMPROVEMENT IN THE TRADE ACCOUNT.

118. OVERALL, ITALYS CURRENT ACCOUNT DEFICIT WILL APPROACH 0.3 PERCENT OF GDP. IF EXPORTS PICK UP AS A RESULT OF A RECOVERY IN THE WORLD ECONOMY, WE EXPECT AN IMPROVEMENT IN 2003 AND 2004. OVERALL, ITALYS CURRENT ACCOUNT DEFICIT WILL

T.ABOR

GOVERNMENT DATA FROM OCTOBER 2002 SHOW THE QUARTERLY NATIONAL UNEMPLOYMENT RATE AT 8.9 PERCENT, DOWN FROM 9.3 PERCENT OF OCTOBER 2001 AND THE LOWEST LEVEL SINCE 1992. UNEMPLOYMENT DECREASED 3.3 PERCENT IN ABSOLUTE TERMS, FROM 2,225,000 IN OCTOBER 2001 TO 2,152,000 IN OCTOBER 2002.

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DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA LABOR FOR ILAB PARIS ALSO FOR USOECD

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TREAS FOR OASIA HARLOW, CARNES
STATE PASS CEA
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AMCONSUL FRANKFURT

E.O. 12958: N/A
TAGS: ECON EFIN ELAB IT ECON EFI JANUARY 2003 PREDICTIONS

REF: A. 02 TREAS 41955Z _B. 02 ROME 4673

- 11. SUMMARY: ITALY IS LIKELY TO GROW ONLY MODERATELY OVER THE FORECAST PERIOD. IN 2002, THE GDP GREW BY A MEAGER 0.4 PERCENT (BELOW THE EU AVERAGE), BUT SHOULD INCREASE BY 1.1 PERCENT IN 2003 AND BY TWO PERCENT IN 2004, SUPPORTED BY A MODEST RECOVERY IN DOMESTIC DEMAND.
- 12. THE GLOBAL ECONOMIC DOWNTURN CONTINUES TO DAMPEN ITALIAN EXPORTS, WHICH ALSO ARE HURT BY THE EUROS STRENGTH VERSUS THE DOLLAR. IN 2002, THE CONVERSION TO THE EURO AND INCREASED UTLLITTES PRICES PUSHED UP RETAIL PRICE LEVELS BY 2.5 PERCENT. HOWEVER, INFLATION IS EXPECTED TO DECLINE TO 2.2 PERCENT IN 2004 THROUGH 2002 SALES 2003 AND TO 1.8 PERCENT IN 2004. THROUGH 2002 SALES
 OF REAL ESTATE AND OTHER ONE-TIME REVENUE MEASURES,
 THE GOI WAS ABLE TO BRING THE DEFICIT/GDP RATIO TO 2.4
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PERCENT, SLIGHTLY ABOUT ITS 2002 TARGET OF 2.2
PERCENT. HOWEVER, OVER THE FORECAST PERIOD, ITALY
WILL HAVE DIFFICULTY IN KEEPING ITS DEFICIT WITHIN EU
TARGETS. END SUMMARY.

GDP GROWTH: 2002

13. AFTER SLOW GROWTH IN THE FIRST HALF OF 2002, ITALYS ECONOMY GREW BY 0.3 PERCENT FROM THE SECOND TO THE THIRD QUARTER. THE THIRD QUARTER OF 2002 WAS 0.5 PERCENT HIGHER THAN THE THIRD QUARTER OF 2001. DATA FROM THE CENTRAL GOVERNMENTS RESEARCH DIVISION,

FROM THE CENTRAL GOVERNMENTS RESEARCH DIVISION, N,
ISTAT, SHOW THAT SLIGHTLY HIGHER EXPORTS AND
PRIVATE/PUBLIC CONSUMPTION, UP 0.2 PERCENT AND 1.6
PERCENT RESPECTIVELY, SUPPORTED GDP GROWTH FROM THE
SECOND TO THIRD QUARTER. HOWEVER, FOR THE FIRST NINE
MONTHS OF 2002, INVESTMENT (MOSTLY IN MACHINERY AND
EQUIPMENT) FELL OVERALL BY 1.4 PERCENT; EXPORTS ALSO
DECLINED 1.1 PERCENT. CONCERNS ABOUT GLOBAL ECONOMIC
CONDITIONS AND INCREASED INFLATION (PARTIALLY BOOSTED BY THE EUROS INTRODUCTION) HAVE SLOWED CONSUMER
DEMAND. ITALYS EXPORTS HAVE ALSO BEEN DEPRESSED BY
THE ECONOMIC DIFFICULTIES OF ITS MAJOR EXPORT MARKETS, GERMANY AND THE UNITED STATES.

14. INDUSTRIAL PRODUCTION FIGURES WERE DISAPPOINTING. IN THE FIRST TEN MONTHS OF 2002, INDUSTRIAL PRODUCTION FELL BY 2.6 PERCENT FROM THE CORRESPONDING PERIOD IN 12001. CONFINDUSTRIA, ITALYS INDUSTRIALISTS UNCLASSIFIED

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ASSOCIATION, ESTIMATES A 0.7 PERCENT DECLINE IN
INDUSTRIAL PRODUCTION IN THE FOURTH QUARTER 2002.
THIS IS IN LINE WITH THE CENTRAL BANK FORECAST.
ON THESE TRENDS, WE EXPECT FIGURES TO SHOW A 1.9 PERCENT DECLINE IN INDUSTRIAL PRODUCTION IN 2002, FOLLOWED BY A MODERATE RECOVERY DURING THE FORECAST

PERIOD.

- 15. ISAES LATEST BUSINESS SURVEY SHOWED A FURTHER DROP IN BUSINESS CONFIDENCE IN DECEMBER 2002. ISAES CONSUMER CONFIDENCE INDEX FELL ANOTHER THREE POINTS IN DECEMBER 2002, REACHING THE LOWEST LEVEL REGISTERED SINCE 1998. ONE BRIGHT SPOT: CAR SALES WERE UP FOR THE MONTH. AS A RESULT OF THE GOVERNMENTS TAX INCENTIVES FOR NEW CAR PURCHASES, CAR SALES INCREASED BY A HEALTHY 51 PERCENT IN DECEMBER 2002. OVERALL, HOWEVER, CAR SALES WERE STILL DOWN 5.9 PERCENT OVER 2001 LEVELS.
- 16. PRIVATE CONSUMPTION IS EXPECTED TO SHOW A DECLINE FROM 1.1 PERCENT IN 2001 TO 0.2 PERCENT IN 2002. WEAK CONSUMER CONSUMPTION IS THE RESULT OF LOWER PORTFOLIO

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TAGS: ECON EFIN ELAB IT ECON EFIN ELAB ETIN ECON ETIN ELAB ETIN ECON E JANUARY 2003 PREDICTIONS

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